

School Finance: Budget Guarantee Phase-out

Senate File 203 (School Finance Provisions Act), enacted in 2001, included provisions that changed the 100.0% Budget Guarantee provision. Among the changes:

- Phased out the 100.0% Budget Guarantee over a ten-year period beginning with FY 2005. Using FY 2004 as the base year (100.0%), the Budget Guarantee percentage would be reduced by 10.0% annually until completely eliminated in FY 2014.
- Created a new 101.0% budget adjustment that provides eligible school districts with a guaranteed 1.0% increase over the previous year's regular program amount. There is no time limit on this provision.
- School districts are only eligible to receive one of the provisions and must adopt a resolution and notify the Department of Management of the amount of budget adjustment to be received.
- The budget adjustment provision is funded entirely through local property taxes.

100.0% Budget Guarantee

Prior to FY 2005, school districts that were impacted by declining enrollments that outweighed allowable growth rate increases were, in general, able to receive additional funding to guarantee that the district received the previous year's total regular program amount. This provision was called the Budget Guarantee and usually required legislative approval annually. Passage of SF 203 codified the 100.0% Budget Guarantee for FY 2002 through FY 2004.

In general, the 100.0% Budget Guarantee was funded through local property tax and guaranteed 100.0% of the previous year's regular program district cost plus the previous year's

Budget Guarantee amount. In some cases, school districts had continued declining enrollments that generated a lower amount for the regular program district cost, but the 100.0% Budget Guarantee provided a "total" regular program district cost equal to the previous year when the district had a higher level of enrollment.

Table 1 provides information regarding the Budget Guarantee from FY 1996 to FY 2004. Between FY 1996 and FY 1999, the number of districts receiving the Budget Guarantee ranged between 54 and 68 (less than 20.0% of the total number of districts), and the statewide total Budget Guarantee amount increased to \$3.2 million by FY 1999. Although the allowable growth rate was set at 3.0% in FY 2000, the reduced amount from previous years combined with declining enrollment caused the Budget Guarantee to increase significantly in cost (\$6.2 million) and number of districts (105). In FY 2003, the combination of enrollment decreases and low allowable growth rate caused a significant increase in the Budget Guarantee. The number of districts receiving the Budget Guarantee more than doubled (from 115 in FY 2002 to 245 in FY 2003) and the total amount generated increased \$20.1 million (from \$7.7 million in FY 2002 to \$27.8 million in FY 2003).

Phase Out of Budget Guarantee

Beginning in FY 2005, the 100.0% Budget Guarantee was eliminated and replaced with the new budget adjustment provision. The Department of Management (DOM) calculates both the "scale-down" budget adjustment (based on the school district's FY 2004 total regular program cost) and the 101.0% budget adjustment (based on the previous year's regular program

cost that does not include any previous budget adjustment amounts). If both calculations for the school district are greater than zero, the Department will notified the district of the larger amount. To receive authority for the budget adjustment, each eligible school district must adopt a resolution authorizing the budget adjustment.

By FY 2014, the "scale-down" budget adjustment will be completely phased out, leaving the 101.0% budget adjustment as the only budget adjustment available to school districts.

(over)

Budget Guarantee Provision that Began in FY 2005:

- Only districts that received the 100.0% Budget Guarantee in FY 2004 (231 of the 370 school districts) are eligible to receive the Phase-out Budget Guarantee in FY 2005 -FY 2013.
- All districts are eligible to receive the 101.0% budget adjustment.
- Districts eligible to receive either the Phase-out Budget Guarantee or budget adjustment are required to adopt a resolution annually.

More Information

LSA Budget
Guarantee/Adjustment Estimates:
http://staffweb.legis.state.ia.us/lfb/docs/k-12_ed/k-12_ed.htm

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Table 2 provides information regarding the budget adjustment from FY 2005 to estimated FY 2010. Estimates for FY 2010 are based on an allowable growth rate of 4.0% and use enrollment estimates that are subject to change. Fiscal Year 2005 resulted in the highest total for the budget adjustment at \$30.8 million. Of that amount, \$24.2 million was generated from the “scale-down” and \$6.6 million was generated from the 101.0% budget adjustment. Nearly two-thirds (235 of 367) of all school districts received the budget adjustment in FY 2005. A combination of the phase-out and allowable growth rates of 4.0% between FY 2006 and estimated FY 2010

has reduced both the budget adjustment amounts and the number of school districts receiving the budget adjustment.

Evidence of the impact of the phase-out is also reflected in FY 2009. This was the first year where the majority of districts receiving the budget adjustment were receiving the 101.0% budget adjustment (91 districts versus 64 receiving the “scale-down”). This is estimated to continue in FY 2010.

FY 2011 Estimates

The General Assembly is required to set the FY 2011 allowable growth rate during the 2009 Legislative Session.

Based on current enrollment projections, two potential cost estimates include (these are also reflected in the bottom portion of **Table 2**):

- At a 4.0% allowable growth rate, 89 school districts would receive a total of \$3.7 million. The scale-down would impact 52 districts at \$2.7 million. The 101.0% budget adjustment would impact 37 districts at \$1.0 million.
- At a 0.0% allowable growth rate, 303 school districts would receive \$42.0 million. The scale-down would impact 27 districts at \$2.3 million. The 101.0% budget adjustment would impact 276 districts at \$39.7 million.

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Table 1
Budget Guarantee Amounts for FY 1996 - FY 2004 (Dollars in Millions)

	Allowable Growth Rate	Local Property Tax	State Aid	Budget Guarantee Total	Number of Districts Receiving	Percentage of Districts Receiving
FY 1996 ¹	3.5%	\$ 1.9	\$ 0.9	\$ 2.8	68	17.7%
FY 1997	3.3%	2.2	0.0	2.2	54	14.2%
FY 1998	3.5%	2.4	0.0	2.4	60	15.9%
FY 1999	3.5%	3.2	0.0	3.2	63	16.8%
FY 2000 ²	3.0%	0.0	6.2	6.2	105	28.0%
FY 2001 ³	4.0%	6.6	0.0	6.6	106	28.3%
FY 2002	4.0%	7.7	0.0	7.7	115	31.0%
FY 2003	1.0%	27.8	0.0	27.8	245	66.0%
FY 2004	2.0%	27.4	0.0	27.4	231	62.4%

1. Eligible school districts received a 101% budget guarantee with the initial 100.0% funded through local property taxes and the remaining 1.0% funded through State aid.

2. The Budget Guarantee was funded entirely through State aid.

3. Although 114 school districts were eligible to receive the budget guarantee, eight did not choose to implement and one district levied only a portion of the full budget guarantee.

Table 2
Budget Adjustment Amounts for FY 2005 - FY 2009 and Estimated FY 2010 and FY 2011 (Dollars in Millions)

	Allowable Growth Rate	Scale-Down Budget Adjustment	Districts with the Scale-Down Budget Adjustment	101.0% Budget Adjustment	Districts with the 101% Budget Adjustment	Budget Adjustment Total	Total Districts with Budget Adjustment
FY 2005	2.0%	\$ 24.2	162	\$ 6.6	73	\$ 30.8	235
FY 2006 ¹	4.0%	17.0	133	2.5	41	19.5	174
FY 2007 ²	4.0%	11.0	105	2.8	44	13.8	149
FY 2008 ³	4.0%	7.0	72	3.3	52	10.3	124
FY 2009	4.0%	4.8	64	7.3	91	12.1	155
Est. FY 2010	4.0%	3.9	57	3.1	67	7.1	124
Est. FY 2011 ⁴	4.0%	2.7	52	1.1	37	3.7	89
Est. FY 2011	0.0%	2.3	27	39.7	276	42.0	303

1. Two districts were eligible for the scale-down budget adjustment but did not adopt the resolution.

2. Five districts were eligible to receive the 101.0% budget adjustment but did not adopt the resolution.

3. One district was eligible to receive the 101.0% budget adjustment but did not adopt the resolution.

4. The FY 2011 allowable growth rate has not yet been established.

Note: Estimates for FY 2010 and FY 2011 are based on enrollment projections and are subject to change.